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AICPA *Washington Report*

July 27, 1987, Volume XIV, Issue 22

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DEFENSE, DEPARTMENT OF

For the first half of fiscal 1987, the Department of Defense's 11 internal audit, internal review, and military exchange audit organizations issued a total of 8,513 reports, according to the DoD Inspector General's semiannual report which was recently submitted to the Congress. Potential savings from the internal audits are estimated at \$1.4 billion. The DoD internal audit followup system documented \$1.3 billion in savings and cost avoidances, the report stated. In addition, the Defense Contract Audit Agency and the Corps of Engineers issued 30,533 contract audit reports reviewing over \$147 billion in contract costs and questioned over \$13.2 billion in costs. Net savings totaled over \$2.3 billion. The Inspector General's report indicates that 204 defense contractors were suspended and 230 were debarred during the period from 10/1/86 to 3/31/87, compared to 246 suspensions and 222 debarments during the previous six month period. The report also revealed 389 indictments and 492 convictions during the first half of fiscal 1987. According to Derek J. Vander Schaaf, Deputy Inspector General for Defense, the Department has initiated a new voluntary disclosure program which allows contractors to report significant fraud and mismanagement problems directly to the DoD. This program "enhances contractor self-policing" and offers "incentives to corporations seeking to avoid suspension and debarment," he said. A copy of the DoD IG's report can be obtained by calling the DoD at 202/697-3139.

OFFICE OF MANAGEMENT AND BUDGET

Gerald R. Riso has recently been named Chief Financial Officer for the Federal Government by OMB Director James C. Miller III. This is a new position established by the OMB to "provide leadership, policy direction, and oversight of Federal financial information and systems, productivity measurement and improvement, credit and asset management, cash management, and internal controls against fraud and abuse," according to the OMB announcement. Mr. Miller said, "The establishment of a CFO in OMB will add strength and emphasis to financial management reform efforts governmentwide." In announcing the appointment of Mr. Riso, Director Miller said, Mr. Riso's knowledge of the Federal government "combined with his outside experience will allow him to bring the best of contemporary technology and practice to Federal financial operations." Mr. Riso, currently the Associate Director of Management at OMB, will continue to serve in that position as well. He is a former partner with the international accounting firm of Touche Ross and has also served as Assistant Secretary of the Department of the Interior for Policy, Budget, and Administration.

SPECIAL: FEDERAL FINANCIAL MANAGEMENT REFORM ACT INTRODUCED IN THE SENATE; HEARING HELD

Legislation creating an Under Secretary for Financial Management in the Department of the Treasury, S. 1529, was recently introduced by Sen. John Glenn (D-OH), who is the chairman of the Senate Governmental Affairs Committee, which has jurisdiction over the legislation. In introducing the legislation, Sen. Glenn said, "...Financial management is best considered as part of budget reform, not as an arcane, accounting issue. Investments made in systems today will produce savings and revenues tomorrow...I believe this bill will go a great distance toward providing an integrated approach to financial management improvement." He noted that it "builds upon GAO's recommendations for an Under Secretary for Financial Management within the U.S. Department of the Treasury." Provisions of S. 1529 include mandating the Under Secretary for Financial Management to develop a plan for an integrated financial management system; requiring the Under Secretary to develop a methodology for estimating executive agency assets and liabilities;

requiring each executive agency to appoint a chief financial officer to work with the Under Secretary and to act as the basis of a Financial Management Improvement Council which would advise the Under Secretary; and requiring a study of the organizational placement of financial management leadership in the future.

In a related action, Charles A. Bowsher, Comptroller General of the U.S., testified at a hearing of the Governmental Affairs Committee on 7/23/87 which was conducted by Sen. Glenn regarding S. 1529. Mr. Bowsher testified in behalf of the GAO and stressed the importance of mandating the position by legislation. The GAO testimony also supported placement of the chief financial officer position within the Department of the Treasury. Witnesses from the Office of Management and Budget opposed establishing a CFO position within the Treasury Department and said the appointment of a chief financial officer within OMB would be announced later in the day (see related story in this issue of the Wash. Rpt.).

Edward J. Haller, a partner with Price Waterhouse in its Office of Government Services, also appeared as a witness at the hearing. Mr. Haller said that S. 1529 "is a step in the right direction in establishing the required leadership" in federal government financial management. However, he said the bill appeared "to be limited largely to the development of integrated, governmentwide financial management systems" and that "effective financial management leadership calls for a much broader definition of financial management and thus a significantly expanded scope of responsibilities for the CFO." He recommended that financial management be defined as encompassing not only financial systems, but also financial policies, financial procedures, financial planning, financial controls, and financial reporting. Mr. Haller also testified that the responsibilities of the Under Secretary should be expanded beyond those specified in the legislation and joined several other witnesses in supporting a specified tenure of office for the position. Also testifying at the hearing in support of S. 1529 were representatives of the Association of Government Accountants and the National Association of State Auditors, Comptrollers and Treasurers.

SPECIAL: AICPA SUBMITS COMMENTS ON 'TAXPAYERS' BILL OF RIGHTS TO SENATE SUBCOMMITTEE

The Taxpayers' Bill of Rights is the subject of comments recently submitted by the AICPA's Tax Division to the Senate Finance Subcommittee on Private Retirement Plans and Oversight of the IRS. Although the Tax Division notes it "agrees with and endorses" certain concepts of the legislation, "some of the proposals will unduly restrict appropriate action by the IRS or are otherwise inconsistent with the goals of improving the effectiveness, efficiency and sense of justice of the tax system." The Tax Division supports the provision on disclosure of rights and obligations of taxpayers, suggesting that codification of these requirements would not only ensure the dissemination of this needed information but also expand the amount distributed. The comments note this is especially important considering a large majority of taxpayers are not represented by tax professionals. Another provision commented on is that which allows the IRS to enter into installment payment agreements with taxpayers in cases involving a liability of more than \$20,000 if the IRS determines the agreement would facilitate payment. However, the bill makes it mandatory for the IRS to enter into agreements when the levy is not in excess of \$20,000. The Tax Division notes the concept is desirable yet, the offer of installment payments should be limited to a case-by-case determination. A determination on this basis will protect the rights of those taxpayers who are truly in need. Making this provision mandatory would create an undue burden on the IRS and would allow certain taxpayers to take advantage of the system, the Tax Division commented. Lastly, a subject of concern is the provision outlining procedures for interviewing taxpayers. The Tax Division

notes the legislation would correct certain inequities created by the IRS requirement that examining agents interview the individual taxpayer even though the taxpayer has designated a qualified practitioner to represent him through a power of attorney.

SPECIAL: LEGISLATION INTRODUCED IN CONGRESS TO AMEND TRA '86 YEAR END CONFORMITY REQUIREMENT

Legislation to amend Section 806, the stringent year end conformity requirement, of the Tax Reform Act of 1986 (TRA '86) was introduced 7/21/87 in the U.S. Senate and House of Representatives. The Senate bill, S. 1520, was introduced by Sen. Max Baucus (D-MT) and Sen. John Heinz (R-PA) and seven members of the Senate Finance Committee to which S. 1520 was referred. The House bill, H.R. 2977, was introduced by Rep. Ronnie Flippo (D-AL) and 14 other members of the House Ways and Means Committee to which H.R. 2977, was referred. The legislation would allow partnerships and S corporations to retain their fiscal years by requiring partners and owners to make enhanced estimated tax payments based on their deferred income. PSCs could elect to retain their fiscal years and be required to make ratable payments of income to owners by 12/31. The AICPA testified in support of this legislation at a 7/22/87 hearing conducted by the Senate Finance Subcommittee on Taxation and Debt Management regarding the Technical Corrections Act of 1987, which would make corrections in TRA '86 (see related story in this issue of the Wash. Rpt.). For further information about S. 1520 and H.R. 2977, please call the Washington Report at 202/737-6600.

SPECIAL: AICPA TESTIFIES BEFORE SENATE COMMITTEE IN SUPPORT OF LEGISLATION TO PERMIT RETENTION OF FISCAL YEARS

Herbert J. Lerner, chairman of the AICPA Federal Taxation Executive Committee, testified in support of legislation to permit most partnerships, S corporations and certain PSCs to retain their fiscal years and suggested that the legislation be incorporated into the Technical Corrections Act of 1987, with an effective date of 1/1/87. The legislation, S. 1520, was introduced 7/21/87 (see related story in this issue of the Wash. Rpt.) by Sen. Max Baucus (D-MT), who is the chairman of the Senate Subcommittee on Taxation and Debt Management before which Mr. Lerner testified in behalf of the AICPA on 7/22/87. He told Sen. Baucus that "the AICPA strongly supports your legislative proposal...as it would resolve the fiscal year issue--on an essentially revenue neutral basis--without mandating changes in the tax reporting periods of partnerships, S corporations, and PSCs." He further stated that "...from a tax policy standpoint,...your legislation was not the AICPA's desired solution to the problem. We would have preferred outright repeal of the year end conformity requirement. However, given the need for a revenue neutral alternative and the belief that tax deferral was a serious problem which should be addressed, in our opinion your legislation is the most viable alternative to the year end conformity requirement." Mr. Lerner noted that Section 806 of the Tax Reform Act of 1986 (TRA '86) which requires most partnerships, S corporations, and PSCs to conform their tax years to the tax years of their owners will "impose a significant burden on small business, on the accounting profession, and on the IRS." He said a survey of AICPA Tax Division members revealed that more than 60 percent of their annual workload will now fall in a three-and-a-half month period as a result of the year end requirement.

Also appearing before the Subcommittee was Deputy Assistant Secretary of the Treasury for Tax Policy O. Donaldson Chapoton. When asked by Sen. Baucus about the problems small business would face in complying with the TRA '86 requirement, he replied that the Treasury was aware that the problem was a serious one and needed to be corrected.

SPECIAL: AICPA PANEL TESTIFIES ON TREADWAY COMMISSION EXPOSURE DRAFT

"In general, we believe the Commission has met its charge to develop recommendations that are practical and reasonable in the circumstances, and we believe implementation of the Commission's recommendations will minimize the incidence of financial fraud," said J. Michael Cook, Chairman of the AICPA, testifying before the House Energy and Commerce Committee's Oversight and Investigations Subcommittee 7/22/87 in Washington, D.C. Mr. Cook outlined broad initiatives taken by the accounting profession to improve the financial reporting process and to detect fraud. "We will continue our efforts as new challenges arise," Mr. Cook added. Testifying with Mr. Cook were Philip B. Chenok, AICPA President, Jerry D. Sullivan, Chairman of the Auditing Standards Board, and Theodore C. Barreaux, AICPA vice president in charge of the Washington office. Mr. Cook told the Subcommittee that the Institute would play a key role in encouraging and overseeing the implementation of the Commission's final recommendations through the Implementation Oversight Committee, a newly-formed committee consisting of members of the five organizations that sponsored the Commission. Working with other interested groups, Mr. Cook said, "we will use the Commission's report as a framework for action now and in the future." Mr. Cook commended the Treadway Commission for recognizing that responsibility for reliable financial reporting "resides first and foremost at the corporate level; independent public accountants play a crucial but secondary role." At the same time, he noted, "we agree that the independent auditor's responsibilities can be expanded and auditor performance improved. We also agree with the Commission's observation that independent public accountants are not guarantors of the accuracy and reliability of financial statements." Although generally supporting the findings and recommendations in the Commission's exposure draft, the AICPA chairman noted reservations about several of its recommendations, contained in a 7/20/87 comment letter to the Commission and submitted to the Subcommittee. In the letter, the AICPA disagrees with the recommendations to restructure the Auditing Standards Board and to require approval by audit committees in advance of the types and extent of management advisory services to be performed by the company's independent auditor. In addition, the comment letter noted that there is a need for a "careful balancing" of the cost-benefit considerations with respect to smaller business. During questioning, Mr. Cook told the Subcommittee that it was highly unlikely that an auditor would retain an engagement if fraud was uncovered and management refused to respond. Mr. Cook also told the Subcommittee that a report of a special AICPA task force on a SEC proposal to improve disclosure of risks and uncertainties facing a business would be distributed soon.

According to Subcommittee Chairman John D. Dingell (D-MI), the Subcommittee has requested each of the Treadway Commission's five sponsoring organizations to testify "to tell us how they intend to assure that the report's good ideas are implemented." Also testifying the same day as the AICPA were members of the American Accounting Association and other representatives of the educational community. In their testimony, they addressed recommendations related to education, ethical values, and professional responsibilities for both practicing businessmen and accountants. The Subcommittee is expected to hold its next hearing on 7/27/87.

For further information contact Shirley Twillman or Joseph Petito at 202/737-6600.

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